CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Kitchener

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New Home Market

Lower New Home Construction Expected

While Kitchener housing starts have been above historical averages, demand for new homes will pull back slightly in 2007. Housing starts will total 2,800 next year, down eight per cent from 2006 levels.

Less stimulative economic and demographic conditions will translate into slightly weaker demand through the end of this year and into 2007. Pent-up demand for homeownership has been fulfilled and future demand will fall in line with slower population growth. While consumer confidence remains high, consumer big ticket purchases have softened. Similarly, slower job growth will also translate into fewer households willing and able to make a home purchase. All of these leading indicators suggest that Kitchener's resale home market will be more balanced ahead and will produce less

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Figure 1

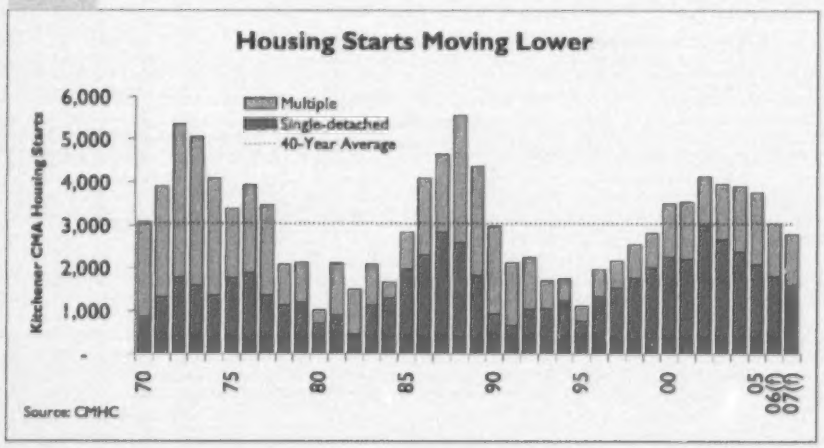

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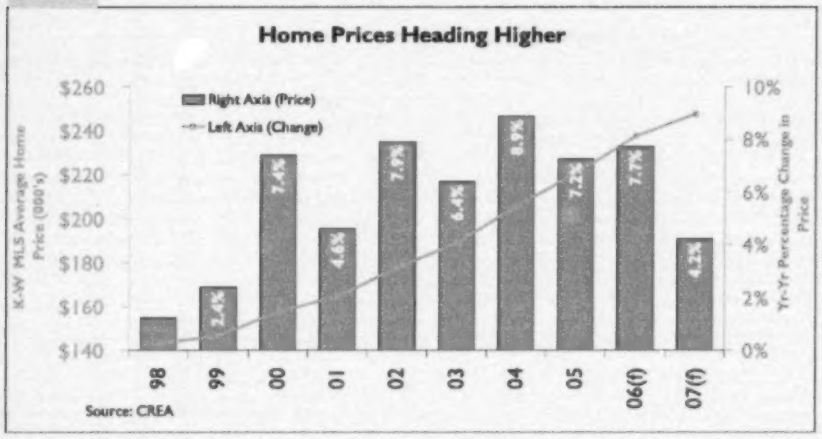
Figure 2



spill over of buyers into the new home market. On the positive side, low mortgage rates will continue to stimulate demand for new homes. In addition, respectable migration into the area will add to this demand.

Supply will also be impacted going forward. As of December 31, 2005 the inventory of land available for residential construction in the Waterloo Region represents between six and seven years supply for all housing types, but four to five years supply for single-detached homes. The Places to Grow Act and Region of Waterloo Official Plan will impact development on this land moving forward as compact development is encouraged and limited to selected growth areas.

Single-detached home starts will move lower again next year. A total of 1,600 single-detached homes will begin construction in 2007. Single-detached home prices continue to rise. Land, labour and material costs will push detached prices higher. As mortgage carrying costs increase, many homebuyers will turn toward more affordable multiple family home types.

The push to reurbanization and intensification will shift the focus of new construction away from the single-detached home toward higher density forms of housing. However, multiple family housing starts, which include semi-detached, townhouses and apartments, will remain flat next year. Construction will begin on a total of 1,200 units in 2007. Multiple family home starts will represent a larger share of new home construction going forward.

Resale Market

Resales to Dip in 2007

Kitchener's resale home market is at a mature phase of the housing cycle. Sales through the Kitchener-Waterloo Real Estate Board will slip by 2.5 per cent from the 2006 level of 6,050 sales, reaching 5,900 sales in 2007. The fundamentals remain in place to produce another strong year for the resale market in 2007. Low mortgage rates and in-migration will keep demand for resale homes at a respectable level. While mortgage rates remain low, above inflation price growth will boost mortgage carrying costs and will temper housing demand.

A total of 9,900 homes will be brought onto the market in 2007, an increase of one per cent from the 9,800 homes listed for sale in 2006. New listings, a measure of supply, will remain high. Homeowners will continue to put their homes up for sale to take advantage of strong equity gains and move to a home more suited to their changing needs.

Figure 3

The sales-to-new listings ratio (SNLR) provides a measure of the current balance between supply and demand in the existing home market. In Kitchener-Waterloo a SNLR above 60 per cent tends to indicate a seller's market, while a ratio between 50 and 60 per cent is indicative of a balanced market. As supply outpaces demand, the resale market will move toward a more balanced state. More choice in the resale market will help to keep price growth subdued. The average price of a resale home in 2007 will reach $247,500, a more moderate increase of 4.2 per cent, down from the 7.7 per cent price increase in 2006. Despite the more than 40 per cent increase in resale home prices in the last five years, low and stable mortgage rates will keep monthly principal and interest costs in check. Also available to price conscious homebuyers are a wide choice of multiple family home types.

Similar conditions exist in the Cambridge resale market. The Cambridge resale market will have another strong year in 2006, but will come off the record performance in 2005. Resales will reach 2,750. Slightly weaker demand for existing homes in 2007 will result in a total of 2,600 homes exchanging hands. The Cambridge resale market is moving toward balanced territory with supply outstripping demand. Price growth will slow. Resale home prices will rise by four per cent this year and three per cent in 2007. The average price of a resale home in Cambridge will reach the $240,000 mark by next year.

Economic Trends

Job Growth to Continue

Kitchener-Waterloo employment levels have plateaued at high levels and only modest increases are expected ahead. Employment growth in the Kitchener area paused in the second quarter of 2006 after the exceptional performance in 2005. Jobs are a key leading indicator of housing demand. There is a usually a one to two year lag between employment and housing activity as it takes time for newly employed individuals to save up for a down payment and establish a work history.

When examining employment growth, it is important to differentiate between full-time and part-time employment. Stable full-time employment is most important to housing demand. Although job losses in part-time employment pulled total employment lower, full-time employment edged higher.

Over the last year, job losses in construction, education and transportation were offset by gains in manufacturing, finance and trade. Despite the job losses in construction in the last year, several large scale construction projects in the CMA are underway or in the final planning stages, indicating that the construction industry will rebound.

Employment in the 25-44 age group declined. Job losses in this important homebuyer group will negatively impact housing demand in the coming months.

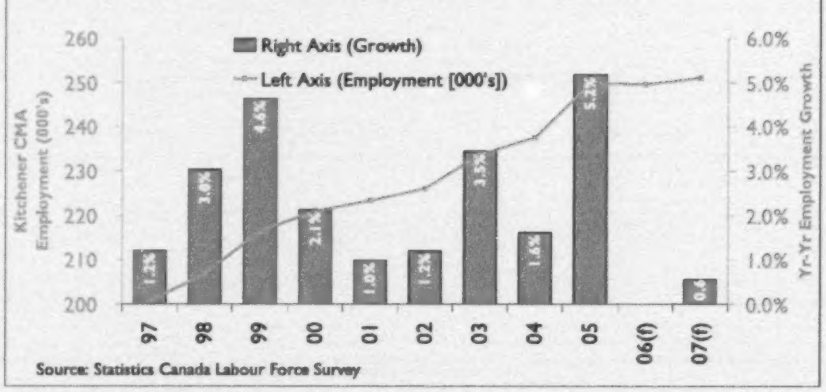
Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006.

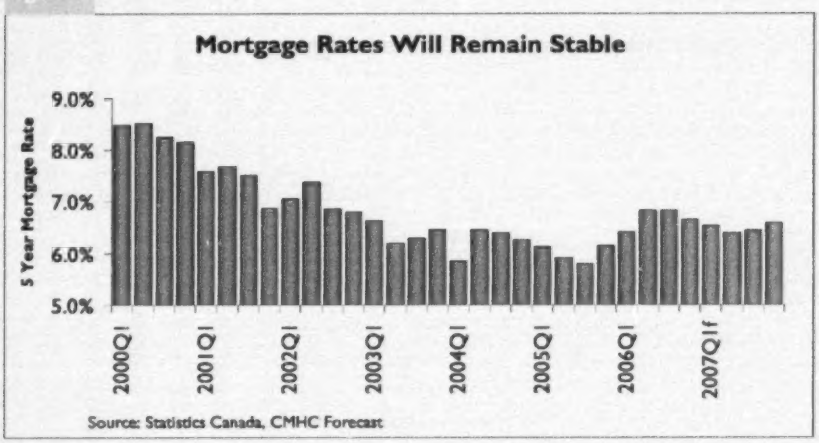
Figure 4

Job Growth Will Fuel Housing Demand



Source: Statistics Canada Labour Force Survey

Figure 5



Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Consumer Confidence Weakens

Ontario consumer confidence, as measured by the Conference Board of Canada's Index of Consumer Attitudes, has remained at a relatively strong level in the last few months, but well below peak levels seen in the 2002 to 2004 period. Lower employment growth and higher borrowing costs are of concern to consumers. A strong local Kitchener economy will keep consumers confident and will support demand for home ownership moving forward.

Due to the continued strong out-migration to the West and slightly lower numbers of immigrants, net migration to the Kitchener CMA will remain stable at the 4,000 level in 2006 and 2007.

Strong levels of migration translate into increased housing demand. Every year, approximately 20,000 people make the Kitchener CMA their new home, while more than 15,000 people move out of the CMA. A strong local economy and more affordable home prices have been attracting an average of 4,500 net migrants to the area since 2000.

Housing Market Outlook Summary
Kitchener CMA

NEW HOME MARKET	2003	2004	2005	2006(F)	% Change	2007(F)	% Change
Single-detached Starts	2,663	2,374	2,082	1,800	-13.5%	1,600	-11.1%
Multi-family Starts	1,292	1,538	1,681	1,230	-26.8%	1,200	-2.4%
Total Starts	3,955	3,912	3,763	3,030	-19.5%	2,800	-7.6%
NHPI - Annual Change (Per Cent)	3.3%	4.5%	5.0%	4.5%	n/a	3.5%	n/a
RESALE MARKET							
Kitchener-Waterloo							
MLS[1] Sales	5,310	5,931	6,147	6,050	-1.6%	5,900	-2.5%
MLS[1] New Listings	7,757	8,601	9,127	9,800	7.4%	9,900	1.0%
Sales-to-Listings Ratio	68.5%	69.0%	67.3%	61.7%	n/a	59.6%	n/a
MLS[1] Average Price	$188,905	$205,639	$220,511	$237,500	7.7%	$247,500	4.2%
RENTAL MARKET							
Apartment Vacancy Rate	3.2%	3.5%	3.3%	3.1%	n/a	2.9%	n/a
Average Rent (2 bedroom)	$754	$765	$811	$828	2.1%	$845	2.1%
ECONOMIC OVERVIEW							
Mortgage Rate (1 year term)	4.84%	4.59%	5.06%	6.27%	n/a	5.50%-6.50%	n/a
Mortgage Rate (3 year term)	5.82%	5.65%	5.59%	6.45%	n/a	5.75%-6.75%	n/a
Mortgage Rate (5 year term)	6.39%	6.23%	5.99%	6.67%	n/a	6.00%-7.00%	n/a
Employed (000's)	233.9	237.3	249.9	249.6	-0.1%	251.0	0.6%
Net Migration	3,110	4,280	4,027	4,000	-0.7%	4,000	0.0%

Sources: CREA, Kitchener-Waterloo Real Estate Board, Real Estate Board of Cambridge, Statistics Canada, and Conference Board of Canada

[1]Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

Kitchener CMA includes the City of Kitchener, City of Waterloo, City of Cambridge, North Dumfries, Twp of Woolwich

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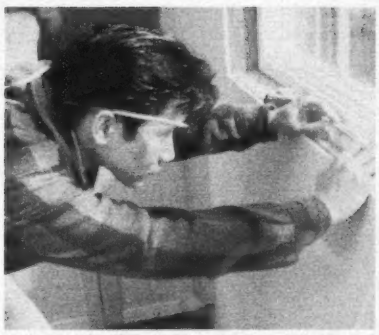
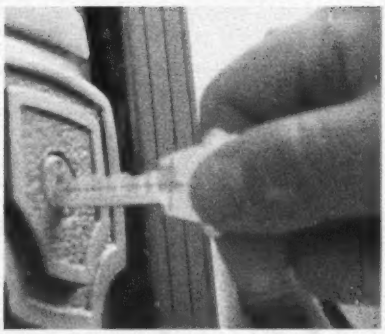

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